

## Message Text

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ORIGIN COME-00

INFO OCT-01 EA-11 ISO-00 AID-20 CIAE-00 EB-11 FRB-03

INR-11 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SP-03

CIEP-03 LAB-06 SIL-01 OMB-01 EUR-25 /116 R

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STATE/EA/IMS/ADORNHEIM(PHONE)

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R 291858Z JUL 74

FM SECSTATE WASHDC

TO AMEMBASSY JAKARTA

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E.O. 11652: N/A

TAGS: BEXP: ID

SUBJECT: INCO MINING REFINERY PROJECT

REF: A) JAKARTA 8164; B) STATE 122265; C) JAKARTA 6567

BEGIN SUMMARY

MEPD REPRESENTATIVE MET WITH DRAVO/INCO OFFICIALS IN PITTSBURGH  
ON JULY 15 TO DISCUSS CONTENTS OF REFTELS AND TO DEVELOP AN  
ACTION PLAN FOR USG ASSISTANCE PROVIDED BOTH FIRMS ACCEPTED  
THIS AS AN APPROPRIATE ACTION. INCO OFFICIALS INDICATED  
THEY HAD FULL KNOWLEDGE OF UNIVERSE OF SUPPLIERS FOR CRITICAL  
PATH MODULES. REQUESTS FOR PROPOSALS ON THESE CRUCIAL  
MODULES HAVE ALREADY GONE OUT TO FIRMS WHO PARTICIPATED IN  
INCO I UNDER AN OPTION CLAUSE WRITTEN INTO THE ORIGINAL  
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CONTRACTS. THE DECISION TO GO FORWARD WITH PHASE II WILL

BE MADE IN AUGUST. WE BELIEVE IT ESSENTIAL THAT EMBASSY CONTINUE TO ENCOURAGE INCO TO SELECT DRAVO AS CONSTRUCTOR FOR PHASE II SINCE THEIR SELECTION IS NOT CERTAIN. APPARENT THAT INCO/DRAVO DO NOT SEE NEED FOR USG INVOLVEMENT OTHER THAN SUPPORT FOR THEIR DOLS A MILLION EXIM PRELIMINARY COMMITMENT REQUEST. END SUMMARY.

1. MEPD REPRESENTATIVE MET WITH E.J. CARROLL, MANAGER, INTERNATIONAL OPERATIONS AND J.T. GILBERT, MANAGER, INTERNATIONAL FINANCE OF DRAVO AND D.C. LOWNEY, PROCUREMENT SUPERVISOR AND R.E. MALONEY, PROJECT FINANCE MANAGER OF INCO TO DISCUSS POINTS RAISED BY EMBASSY IN REFTELS A AND C. WE REINFORCED OUR OFFER OF USG ASSISTANCE AND SOUGHT INVOLVEMENT IN PHASE I AND PHASE II PROCUREMENT.

2. INCO HAS ALREADY REQUESTED SUPPLIERS OF CRITICAL PATH MODULES ON PHASE I TO PREPARE UP-DATED PROPOSALS FOR PHASE II EXPANSION. IN ACCORDANCE WITH PHASE I CONTRACTS, EACH SUPPLIER RECEIVED AN OPTION TO SUPPLY THE EQUIPMENT ON PHASE II. AS PHASE II IS GENERALLY A DUPLICATION OF PHASE I BUT ON A LARGER SCALE, INCO BELIEVES OPTION CLAUSES WILL ASSURE COMPATABILITY OF EQUIPMENT AND PARTS INVENTORIES. INCO FEELS THEY WILL RECEIVE ACCEPTABLE PROPOSALS FOR THESE MODULES AND THUS DOES NOT SEE NEED FOR USG ASSISTANCE ON THESE PROCUREMENT DECISIONS. (FYI: INCO RECORDS INDICATE U.S. PROCUREMENT ON PHASE I AS OF 6/74 WAS DOLS 46.7 MILLION, CANADIAN PROCUREMENT DOLS 23.6 MILLION, AUSTRALIAN PROCUREMENT DOLS 5.4 MILLION, INDONESIAN PROCUREMENT DOLS 15.8 MILLION. END FYI.)

3. INCO REPS INDICATED U.S. PROCUREMENT WILL CONTINUE TO DEPEND PRINCIPALLY ON DEGREE OF EXIMBANK PARTICIPATION. (THIS POINT WAS LATER CONFIRMED BY R. DEGAVVE, INCO VICE PRESIDENT FOR FINANCE AND P.T. INCO MANAGING DIRECTOR JESSUP.) DURING PHASE I, U.S. EQUIPMENT WAS SELECTED ON MOST MODULES UNTIL EXIMBANK COMMITMENT RAN OUT. INCO THEN SHIFTED PROCUREMENT TO CANADIAN SOURCES AS EDC FINANCING MADE CANADIAN EQUIPMENT MORE COMPETITIVE THEN COMMERCIALY FINANCED U.S. EQUIPMENT. INCO FEELS THAT LIMITED OFFICIAL USE

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PROCUREMENT REMAINING UNDER PHASE I WILL CONTINUE TO GO TO FOREIGN SOURCES DUE TO THE INABILITY OF U.S. SUPPLIERS TO TAP EXIMBANK FINANCING. INCO PLANS TO REQUEST DOLS 70 MILLION PLUS COMMITMENT FROM EXIMBANK FOR U.S. PROCUREMENT ON PHASE II IN AUGUST, BUT OWING TO BANK'S RELUCTANCE TO INCREASE COMMITMENT ON PHASE I, THEY ARE CONCERNED. THEY REQUEST EMBASSY/MEPD SUPPORT. WE BELIEVE EXIMBANK P.C. REQUEST IS MATTER BETWEEN BUYER AND SELLER AND THE BANK AND

AS SUCH IS NOT AN AREA WHERE OUR INVOLVEMENT IS APPROPRIATE. EMBASSY, HOWEVER, MAY WISH TO HIGHLIGHT THIS PROJECT WITH EXIMBANK OFFICIALS.

4. INDICATIONS ARE FIRST NATIONAL CITY BANK DOES NOT INTEND TO BE INVOLVED IN EXIMBANK FINANCING BUT WILL ARRANGE LARGE EURODOLLAR CREDIT FOR THE PROJECT.

5. THE DECISION ON WHETHER TO GO FORWARD WITH PHASE II WILL BE MADE IN AUGUST. SINCE PHASE II IS A DUPLICATION OF PHASE I, INCO INFORMS THE SPECIFICATIONS WILL REQUIRE ONLY MINOR CHANGES PRIOR TO THE TENDERING STAGE. INCO REPRESENTATIVES WOULD NOT INDICATE WHETHER DRAVO WILL BE SELECTED AS PHASE II CONTRACTOR. WE DID RECEIVE DISTINCT IMPRESSION THAT DRAVO, EVEN IF THEY ARE SELECTED, MAY NOT BE ONLY CONTRACTOR ON THE PROJECT. WW CONTINUE TO URGE EMBASSY TO MAKE REPRESENTATIONS ON BEHALF OF DRAVO'S PROPOSAL.

6. AT OUR REQUEST MESSRS. CARROLL AND GILBERT OF DRAVO WILL CONTACT EMBASSY TO DISCUSS PROJECT IN LATE AUGUST. WE WILL CONFIRM DATES IN FOLLOW UP CABLE. DRAVO HAS NOT BEEN PLEASED WITH USG INTERVENTION DURING CRITICAL STAGES OF NEGOTIATIONS FOR SELECTION AS PHASE II CONTRACTOR. IT IS ONLY THROUGH OUR EXTREMELY CLOSE RELATIONSHIP WITH DRAVO THAT WE WERE ABLE TO HAVE A CANDID DISCUSSION WITH DRAVO/ INCO OFFICIALS ON THE POINTS RAISED IN EMBASSY CABLES. INGERSOLL

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